

A Work Project, presented as part of the requirements for the Award of a Masters Degree in Management from the NOVA – School of Business and Economics.

INTERNATIONALIZATION STRATEGY OF QUINTA DOS TERMOS TO GERMANY

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Abstract

The work project, Internationalization Strategy of Quinta dos Termos to Germany, is about a Portuguese wine company that faces the need to expand to new markets. Thus, this project focuses on exploring the sustainable competitive advantages of the firm, selecting the most suitable target market, assessing that market and defining the best way to enter it. Moreover, an implementation plan is proposed complemented with a financial analysis. This project aims to grant a successful internationalization strategy to Germany and to serve as a guideline to further internationalization projects of Quinta dos Termos.

Keywords: Internationalization Strategy; Germany; Wine Market; Quinta dos Termos

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1. SME Competitiveness: Quinta dos Termos

1.1. Description of the firm

Quinta dos Termos is a family-owned farm located in Belmonte – in the region of Beira Interior – that is dedicated to the production of diverse varieties of gastronomic wine. Acquired in 1945 by Alexandre Carvalho, the estate is currently owned by its son, João Carvalho, who since the mid 50's was responsible for the restructuring of the vines and for the constant acquisition of new land parcels. These days, Quinta dos Termos lands total 180ha, from which 60ha are dedicated to production of selected grape varieties. The land parcels of Quinta dos Termos are exposed to the south and are surrounded by the high mountains of Serra da Estrela, which protect the vines from the northern cold winds, offering a unique climate to the production of wine.

The wine portfolio is composed of 14 red wines, 4 white wines, one rosé and 3 sparkling wines and the prices range between €3 and €20, allowing the company to target for different market segments. Currently, the company is producing approximately 600.000 liters per year, corresponding to 800.000 bottles, and in 2015 the total volume of sales reached €763.906, from which 10% are related to exports. According to the available data, the company expect to reach €900.000 in the year of 2016. The company is certified in Integrated Crop Management by SATIVA, a Portuguese company responsible for controlling and certifying enterprises that ensure the production process is natural and environmentally sustainable. Also, proper hygiene conditions are guaranteed and the usage of herbicides and pesticides is forbidden. The adoption of these practices lead to the production of ecological wines.

Quinta dos Termos has partnerships with two important Universities: *The School of Agronomy – University of Lisbon* and *University of Beira Interior*. Currently, they are exploring together the development of Fonte Cal, which is an indigenous grape variety of Beira Interior.

Although the national market is the most important to the Quinta dos Termos, the company is aware of the necessity to explore other markets and to export the products abroad.

1.2. Mission & Vision

The **vision** of Quinta dos Termos is to be a family winery that produces, with passion, quality wines, differing from the others by being wines of *terroir* and having a great gastronomic aptitude. Its **mission** is to follow traditional techniques of viticulture and winemaking, envisioned by reputable oenologists, promoting the environmental sustainability and taking advantage of Quinta dos Termos' *terroir* synergies.

Regarding the strategic objectives, Quinta dos Termos sets as a goal to have total revenues of €1.500.000 by the year 2020, representing almost twice the sales volume of 2015. The company expects to export 60% of its products, revealing a clear focus in the international market.

1.3. Value Chain Analysis

In order to have a clearer view on the operations management and the sources of value of Quinta dos Termos, the value chain must be analysed.

The value chain divides a company's activities into the technologically and economically distinct activities it performs to do business. These activities are divided into primary and support activities. Primary activities are those involved in the physical creation of the product, its marketing and delivery to buyers, and its support and servicing after sale. Support activities provide the inputs and infrastructure that allow the primary activities to take place (Porter, 1998) (Annex I).

The first stage of the primary activities is the **Grape Production and Sourcing**. By producing under the integrated crop management regime, the company assures not only that the sustainability

of the vines in the future, but also the desired and certified quality of its grapes. Also, it is noteworthy that 60% of the grapes used are cultivated in Quinta dos Termos vineyards and the remaining is sourced from local partners, which involve rigorous quality control. Furthermore, the **Wine Development and Production** takes place. At this stage, the sourced grapes are transformed into pulp that is then transferred to the wine vats, place where the fermentation period occurs. Then, depending on the specificities asked by the oenologist, a wide variety of wines with different characteristics are produced. Furthermore, the bottling, the labeling and the packaging take place. It is worth mentioning, that the bottling process is outsourced to a specialized company, ELA, Lda. , which not only provides the machinery, technology and staff, but also grants efficiency, technical expertise and quality control. Meanwhile, a resident oenologist ensures that a rigorous quality and hygiene control is done during the different stages, starting from the moment the grapes are being produced until the wine is shipped, guaranteeing an end product of constant and high quality. **Goods Inventory and Distribution** activities consist in the warehouse inventory management and the expedition of the finished products to its distribution centers. João Carvalho, the CEO of Quinta dos Termos, is responsible for managing inventory. His deep knowledge of the company and of the wine produced are essential to perform this task correctly. Also, since the company has to communicate the State the inventory it possesses on a monthly basis, serves and helps the company to have the inventory constantly updated. The enterprise has five own distribution centers across Portugal, namely in Lisbon, Oporto, Madeira, Marinha Grande and Coimbra. These centers allow the company to fulfill orders from all over the country and to perform them on time. The distribution to those centers is outsourced to multiple transport companies, for example, STEF Transport SAS. Due to the hard competition in the industry of transports, their services are cheap and of high quality. The last primary activity is **Marketing and Sales**. The company has its own salespeople that sell both on the on-trade and of-trade channels directly. The enterprise has 9 salespeople and they are mainly located in Beira Interior,

Lisbon and Porto. These are the regions the company sells the most and which have the highest sales growing potential, particularly Porto and Lisbon. The sales agents are paid on a commission basis, in order to increase their motivation and productivity. The better they perform, the more they get, which results in an increase in sales for the company. The promotional activities are developed by Quinta dos Termos directly, which include the participation in wine fairs and the advertisement in magazines.

The **Firm Infrastructure**, that includes functions such as general management, legal work and accounting, supports the entire chain. For that purpose, the company has a full time employee strictly dedicated to invoicing and accounting of the enterprise. Also, the general management is founded not only in João Carvalho but in the entire family and in the specialized advisement of the consultant oenologist Professor Virgílio Loureiro. Regarding the **Technology**, the company has a resident oenologist and chemist, who constantly adopts the most modern quality control tools and methods in the lab, providing assistance in all stages of the production process. Furthermore, the enterprise is in constant contact with the wine production machinery suppliers, in order to evaluate and be updated on the more efficient machines for the company to support the primary activities. Being a family-owned and relatively small company, the management of **Human Resources** is done at a very personal and simple level. The firm is composed by a management team with international experience, an acclaimed oenologist and two oenologist-consultants, one accountant, one chemist, nine salespeople and also seasonal workers that reach 50 people in the harvesting season and can be less than 5 during the winter. Therefore, there is a close contact between João Carvalho, responsible for recruiting and managing HR, and the employees, who gives them a constant feedback and is updated on the company's needs for human resources. The knowledge and experience of both João Carvalho and oenologist consultant Prof. Loureiro in the wine industry, constitute an important tool regarding the **Procurement** activities. Their wide network of contacts, regarding suppliers and vendors, often results in successful

business at competitive prices. The Comissão Vitivinícola da Região da Beira Interior (CVRBI) also provides a crucial guidance and support to the company's purchasing decisions.

1.4. Competitive Advantage in the domestic market – Portugal

Recently, there has been a resurgence of interest in the role of the firm's resources as the foundation for firm strategy (Grant, 1991). Therefore, the VRIO framework was built to assess the potential sustainable advantage of Quinta dos Termos. One can conclude that the company has a potential sustainable competitive advantage, mainly due to the physical and intangible resources of the company. The singular terroir and climate, culminating in a differentiated and unique wine and the close relationship with the CVRBI and the University of Beira Interior, which allowed the company to be promoted in Portugal and abroad and to achieve significant advances in new means of production and R&D, offer Quinta dos Termos a potential sustainable competitive advantage (Annex II).

1.5. Industry Mapping

In Portugal there are three main entities that participate and regulate the wine industry, namely European Union Representatives, Portuguese Regulators and Portuguese Promoters.

The European Union, through the Common Agricultural Policy, regulates and legislates the agriculture among the members of the EU, in order to standardize the practices in all countries involved. However, it is through the *Instituto da Vinha e do Vinho* (IVV), *Quadro de Referência Estratégica Nacional* (QREN), and *Programa de Desenvolvimento Rural* (PRODER) that the European policies are implemented at the national level. These entities, are also responsible for overseeing the existent quality control systems and for promoting the Portuguese wine abroad.

At a local level, the Comissão Vitivinícola Regional da Beira Interior (CVRBI) is the entity responsible for controlling the attribution of origin certifications and promote the wine from Beira Interior. A major problem is that the number of entities involved in the industry is substantial, making legislation complex and some overlapping activities between the different entities. Lastly, the most important promoter entity of Portuguese wines in Portugal is ViniPortugal. ViniPortugal is the Intertrade Association of the Viticultural sector and the managing entity of the brand *Wines of Portugal*. The entity is responsible for promoting Portugal as a producer of wine of excellence through the valorization of the brand Wines of Portugal. Through ViniPortugal, the brand Wines of Portugal is present in 4 continents and 11 strategic markets. It has an annual investment of 7 million euros and holds more than 100 initiatives abroad to promote Portuguese wines.

1.6. Need for Internationalization

Before settling an internationalization strategy, it is important to assess the need Quinta dos Termos has for internationalization. The wine consumption per capita in Portugal has decreased approximately 12% between 1993 and 2015. In 1993 the average per capita consumption was 60 liters per year and in 2015 the value dropped to 47,6 liters per year (Annex III). Furthermore, Portugal is an auto-sufficient country, producing more 14,5% than its total consumption revealing the necessity the sector has to export (Jornal de Negócios, 2016). On the other hand, Quinta dos Termos has a production capacity superior to its sales. In the last year, the company invested heavily on new vines, with a dimension of approximately 30ha, meaning that in the next years the total production will exceed 750.000 liters produced. In addition, the company has been accumulating stocks in the last years. These evidences reveal that the domestic client portfolio has no dimension to its wine supply. The HORECA channel, is the most important channel for Quinta dos Termos in Portugal. However, the number of restaurants, hotels and cafes has dropped 7,7% between 2009 and 2012.

2. Internationalization process to Germany

2.1. Market Selection

In order to select the best market for the company to internationalize, a market screening was conducted. After a meeting with Pedro Carvalho, global business development manager of Quinta dos Termos, it was decided that the company should target a country from the list that ViniPortugal defined as strategic markets for the next years (ViniPortugal, 2016). From the eleven strategic markets, Sweden, Germany, Angola and the United Kingdom were considered the most promising countries. Then, several relevant criteria were chosen and different weights were attributed to each criteria. The higher the respective percentage, the higher the importance of that criteria to the final country selection. Moreover, values from 1 to 4 were attributed to each country depending on how well they fulfill those criteria. Those values are then multiplied by their respective weights and added up in the end. The country with the highest total value is the market selected for Quinta dos Termos to internationalize.

Table 1 - Market Screening analysis

Criteria	Weight	Sweden	Germany	Angola	UK
Market dimension	10%	1	4	2	3
Gross Domestic Product	5%	2	4	1	3
GDP growth rate	10%	4	2	1	3
GDP per capita	15%	4	3	1	2
GDP per capita growth rate	10%	3	4	2	1
Portuguese residents	10%	1	3	4	2
Wine Consumption (2014)	15%	2	4	1	3
Wine Consumption evolution (2014 - 2011)	10%	4	3	1	2
Political Stability	10%	4	3	1	2
Geographical Proximity	5%	2	4	1	3
Total	100%	2,8	<u>3,35</u>	1,5	2,35

With a total of 3,35, Germany is the selected target country. In annex (IV) the relevant data that justify the attribution of the values can be found.

2.2. Germany

With approximately 82 million inhabitants, Germany is the most populous country in the European Union. The country is composed by 16 constituent states and together they cover an area of 357.168 square kilometers. It is located in the center of Europe and has nine neighbouring countries, namely the Czech Republic, Austria, France, Switzerland, Poland, Belgium, the Netherlands, Denmark and Luxembourg. Germany has the highest Gross Domestic Product from Europe. In 2016 its value amounted to 3.494.900 billion euros, and according to the IMF it is predicted to have a real growth of 1.7% in 2016 and 1.4% in 2017 (International Monetary Fund, 2016). In 2016 it is predicted that the purchasing power will grow by 2%, meaning an increase of approximately 430€ per person for consumption. Since the inflation rate in 2016 is predicted to grow 1%, the real purchasing power will grow 1%.

Germany is formed by 16 constituent states and the distribution of wealth and the standards of living vary considerably from state to state. Two decades after reunification of the country, substantial economic disparities between East and West Germany remain. The western states have much higher purchasing power than the eastern states, being Bavaria the only exception. For instance, the purchasing power in western states such as Hamburg and Baden-Württemberg rounds 24.000€ per person, whereas eastern states such as Mecklenburg Western Pomerania and Saxony-Anhalt have a purchasing power of approximately 6.000€ less (Annex V).

2.3. Germany – Wine Market

With a total wine consumption of 2.020.000 liters in 2014, Germany ranks fourth in the biggest market consumers in the world, right after the United States, France and Italy. The wine consumption grew by 2,5% between 2011 and 2014 (Wine Institute, 2016) and it is the biggest importer in the world. The import rate in Germany has been growing faster than the internal

consumption rate. Also, Germany is the third most important country for the Portuguese wine exports. In 2014, Portugal exported 2.187.875 liters, which corresponds to a total export value of 32.161.251€ (ViniPortugal, 2016). The total wine sales in value through retailers in the German market increased by 2,5% in 2013, compared to the previous year, and declined by 0,6% in volume (AICEP Portugal Global, 2014). Moreover, the total sales of red wine in the retail commerce dropped 0,5%, in value, in 2013, however the white wine increased by 7,4%. In volume, the red wine sales decreased 2,4% and the white wine increased 1,6%. In the same period, the red wine had a market share of 49%, the white wine 41% and rosé 10% (AICEP Portugal Global, 2014). The German wine consumption per capita amounts to 25 liters and this value is estimated to grow by 2% in 2019. Also, The wine market in Germany of still wine amounted 1718,03 million liters in 2014 and the value is expected to increase by 5% in 2019.

Portugal wines still do not have a strong presence in the German wine market. In 2015, Portugal ranked 10th in the ranking of wine exporters to Germany in volume with 16 million liters and 9th in value with approximately 37 million euros (Annex VI). In an attempt to achieve a more significant position of the Portuguese wines in Germany, ViniPortugal set the objective of increasing the value of the Portuguese exports by 14% by the end of 2017 (ViniPortugal, 2016).

2.4. Trade Channels Analysis

In this chapter an analysis of the points of purchase of wine market in Germany is evaluated. The market can be divided in four main establishments, namely: Estates and Cooperatives, Specialized Wine Shops, Supermarkets and Hard Discounts.

Table 2 - Volume (in mill hl.) and Value (in bill €) of wine sold per point of purchase in Germany

Establishments	Volume in mill. hl.	Volume (%)	Value in bill. €	Value (%)	Avg. Price (€/l)
Supermarkets	4,4	30	1,6	23	3,6
Hard Discount	4,4	30	1,1	15	2,5
Spec. Wine Shops	1,9	13	1,9	30	10
Estates and Cooperatives	3,9	27	2,2	32	6

Total	14,6	100	6,8	100	5,5
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Source 1 - Hoffmann (2014)

Since the wine of Quinta dos Termos is distinguished by its quality, it becomes clear that the company should try to penetrate in the premium market. According to the Deutsches Weininstitut and the Research Institut of Geisenheim the market premium is defined as the price segment with a selling price above 5 €/l. By evaluating the data shown in the table above, it is possible to conclude that the premium market in Germany accounts for 62% in value and by 40% in volume, since the average selling prices in the Specialized Wine Shops and Estates and Cooperatives establishments are above 5€. Those values are given by the sum of the value and volume percentages of the Specialized Wine Shops and the Estates and Cooperatives. Thus, the premium market in Germany is big and offers an important opportunity for Quinta dos Termos (Hoffmann & Szolnoki, 2010). Because the company does not belong to any Wine Estates or Cooperatives, the company should let its products flow by the Specialized Wine Shops sales channel. Nowadays, there are more than 4000 specialized wine shops in Germany (Hoffmann, 2014).

Whereas the sales of Portuguese wines through retailers and big discounters are almost negligible, both in volume and in value, the same does not happen in the specialized retailers. In these establishments, the positioning of Portuguese wines is more significant than in any other trading channel. The Portuguese wine sales represent approximately 4% of the total sales of these establishments, just after German, Italian, French, Spanish and Austrian wines (Annex VI).

It is important to differentiate the regions within Germany Quinta dos Termos will succeed the most, in order to create an efficient distribution network and also to better plan the marketing and promotional activities. Also, given the current volume of Quinta dos Termos wine production it is important to focus in few strategic regions in Germany. To select those regions some criteria were analysed among the 16 states, such as the purchasing power per capita, the purchasing power of wine per inhabitant, the number of inhabitants, the Portuguese presence, the number and

characteristics of the distributors, among others (Annex V and VII). **Hamburg, Munich and Baden Württemberg** are the cities the company must penetrate in first stage. These are the cities with the highest purchasing power per capita with 24.024€, 23.843€ and 23.368€, respectively (Annex V). Furthermore, the spendings on wine per capita are above the German average (Annex VII). Also, the number of inhabitants is extremely high in the regions and according to the data provided by AICEP in Berlin there are many distributors present (Annex VIII). In Hamburg there is even a Portuguese Quartier with more than 10.000 portuguese residents, more than 40 restaurants, many cafes and Portuguese stores.

2.5. Consumer Profile

In order to define a marketing strategy and a wine selection from Quinta dos Termos' portfolio, an analysis of the German wine consumer must be done. A report written and conducted by Prof. Dr. Dieter Hoffmann and Dr. Gergely Szolnoki gives important insights about the consumer profile of the German wine drinkers. A survey was conducted to 2000 wine consumers, in order to understand the wine consumption structure and the consumers' preferences and behaviours (Hoffmann & Szolnoki, 2010). In their study, the consumers were segmented according to the establishment where they usually buy wine. Six different segments were defined, but the "Specialized Wine Shops clients" is the only one relevant to be analysed, since it is in the specialized wine shops establishments that Quinta dos Termos will penetrate.

The clients of the specialized wine shops have a preference for red wine. 54,2% prefer red wine, 32,6% white wine and 13,2% buy rosé. Also, the report shows that there is an openness to foreign wines in those shops. 46,8% of the clients have a preference for wines from abroad. Furthermore, Portugal stands fourth (5,5%) in the most preferred European wines, just after Italy (35,7%), France (34,6%) and Spain (13,5%). The sociodemographic structure of this segment was also analysed. More than 30% of the specialized wine shops clients have a net income higher than

3.500€ and approximately 25% earns between 1500 and 3499€. Not surprisingly, 38,1% of the customers from this segment are considered to be in the highest social class. The German consumer is very price-sensitive. However, the consumer is willing to pay high prices for wines he perceives as being of good quality. Moreover, the region of origin of the specialized wine shops customers was analysed. Almost one-third of the clients come from Northrhine-Westphalia and 20,5% from the Bavaria region. As can be seen in annex V, both states have high purchasing power per person. Also, 89,5% of the respondents live in the western part of Germany. This data is extremely important since it enhances the fact that the internationalization of Quinta dos Termos to Germany must be done at a regional level, in particular states such as Bavaria, Hamburg and Northrhine-Westphalia, and not at a national level.

Lastly, the favourite TV-programs and type of vacations per segment were examined. The specialized wine shops customers are, above all, interested in politics (90%) and news (62%) when they watch TV. When asked about the preferred form of vacation, 46% of the respondents answered they like to do summer vacation at the sea. This results are particularly interesting, since they allow Quinta dos Termos to know what are the best and more efficient marketing channels to promote its wine in Germany.

2.6. Competitive Analysis of Quinta dos Termos in the German market

Entering a foreign market such as Germany can be very challenging for a company, especially for a SME as Quinta dos Termos. Therefore, an analysis of the company's strengths and weaknesses, as well as the opportunities and threats it may face in the German market is key to define an efficient internationalization strategy for the company. A SWOT analysis is performed to access a competitive analysis of Quinta dos Termos in the German market (Annex IX).

The main objective of entities, such as ViniPortugal, is to change the opinion foreign consumers have about the Portuguese wines, because for many years they were regarded as being of low

quality. However, ViniPortugal wants to alter that image and it is focused on showing to the world that Portugal can produce great wines, with high and homogeneous quality and with a differentiated product. Quinta dos Termos is in line with that strategy. The company produces excellent wine, with full respect for its terroir and benefiting from the unique characteristics of its climate and soil. Moreover, the enterprise offers a differentiated wine portfolio that results from an enormous diversity of traditional Portuguese grape varieties. The quality and differentiation are the main strengths of Quinta dos Termos. The Integrated Crop Management certification represents a major opportunity for Quinta dos Termos. In Germany, there is an upward trend for ecological wines and studies revealing the health benefits of a moderate consumption of wine. These trends must be explored (American Chemical Society, 2003). Thus, Germany is a strategic market for ViniPortugal and that represents a great opportunity for the company. The entity organizes many wine fairs in different regions and Quinta dos Termos can seize the opportunity to promote its wines and to establish useful contacts with local distributors, retailers and consumers. Moreover, the recent upsurge of German tourists to Portugal represents an opportunity for the oenotourism activities the company offers and consequently create brand awareness in Germany.

On the other hand, it is imperative that the company works on its website, which is currently not functioning and represents a lack of professionalism to the enterprise. Thus, Quinta dos Termos must be aware of some threats it faces in the German market, such as the lack of brand awareness and the lack of connections with local economic wine players. Furthermore, the presence of Portuguese gastronomy in Germany is almost negligible, in comparison with the Italian, Spanish and French cuisine. The gastronomy represents an important entry point for the wines of those countries.

3. Entry Mode

When choosing the best entry mode in a foreign market, many factors must be taken into consideration: the goals and objectives of Quinta dos Termos, the degree of control desired over decisions and operations, the risks associated with the different entry modes strategies, the availability of partners in the market and the characteristics of the product. Bearing this in mind, the entry mode that fits the better must be chosen. Typically, an entry into a foreign market can be planed in two ways. **Exporting**, which refers to the scale of goods or services produced by a company based in one country to customers that reside in a different country (Daniels, et al., 2004) or **transferring resources** such as technology, capital, human resource skills and enterprise to the foreign market where they can be sold directly to users or combined with local resources to manufacture products for sale in the foreign market and perhaps other national markets. The transfer of resources can be done through a contractual mode of entry, such as a franchising or licensing, or through an investment mode of entry, such as a establishment of a new solely owned venture or a acquisition or establishment of a joint-venture in the foreign market (Darling & Seristö, 2004).

For Quinta dos Termos, exporting is the best mode of entry in the German market. Besides, this strategy comprises low costs, since investment is not required, low risks and flexibility to the company. Some authors argue that the sales politics adopted in the domestic market should be taken into consideration when deciding the process of international entry and its form (Wiedersheim-Paul, et al., 1978). Burgel and Murray stated that the “strongest predictor of the chosen foreign entry mode was the existing, domestic sales mode of the firm... the explanatory effect of these variable is arguably due to the presence of embedded routines and experiences with the domestic sales mode” (Burgel & Murray, 2000). Furthermore, by exporting the customer base diversifies, reducing the dependence on the domestic market, the costs of entrance are negligible and overall sales volume will increase. Moreover, the company must choose between exporting direct export, foreign indirect export or domestic indirect export (Annex X). Direct export means

that the manufacturer exports directly to the final consumer, however this method is not particularly advisable for firms which have no brand awareness and are trying to penetrate in a new foreign market. The domestic indirect export involves the use of intermediaries located within the company's domestic market. In the perspective of potential exporters, such activity amounts to little more than a normal domestic transaction. The domestic indirect export mode of operation is seen as a low-risk way of getting started in the foreign markets, but also of low-commitment. On the other hand, the foreign indirect export method is the exploitation of foreign markets through foreign intermediaries. This method is perceived as having low costs and low financial risks and very often the intermediaries have international operations themselves, which allows the exporter to target a wider range of foreign markets. The local market knowledge, the ability to deal with cross-cultural issues, such as language and government relations, the low cost of market entry and the feedback from the relevant market are useful tools a foreign intermediary can grant to a company willing to export (Welch, et al., 2007). At this stage, the foreign indirect exporting, by finding a foreign distributor, is more advisable since a close engagement between company and a distributor is essential to make sure that the distributor is aware of the Quinta dos Termos wine history and characteristics and pass that knowledge to the clients. The company defines a marketing and sales strategy and the distributors should adapt it to the local market needs. Furthermore, the company should pro-actively select locations or specific regions and only then suitable distributors, since the best distributors are not necessarily the largest ones (Arnold, 2000).

3.1. Implementation Plan

Companies that operate in foreign markets must decide how much to adapt their marketing-strategy mix to local conditions. At one extreme are companies that use a standardized marketing mix worldwide, at the other extreme the producer adjusts the marketing-mix elements to each target group (Kotler, 1994). A summary of the Business Plan is described in Annex XI.

3.1.1. Product

As mentioned before, Quinta dos Termos must fit its products in the premium market, with a clear focus on the specialized wine shops and on the on-trade channel. The company must pursue a differentiation strategy, by focusing on the quality of the product instead of a cost leadership strategy. The German consumers are price sensitive, however they give good money for products they recognize as being of good quality.

Despite the fact that Quinta dos Termos has a wine portfolio that exceeds 20 wines, it is important that the company enters the market with only one or two products in an initial stage. When brand awareness is created and quality is associated to Quinta dos Termos' wines, then other products from the company can be exported. The chosen wine to enter the German market must meet certain criteria. The wine must be of very good quality, needs to have a pricing that sets it at the premium market, must take into consideration the German wine consumer preferences and the company must produce enough bottles per year to export it in a medium scale constantly. Moreover, the wine must be produced of Portuguese grape varieties and should preferably have won awards from reputable wine tasting contests.

Quinta dos Termos – Colheita Seleccionada 2008 is the wine that best matches the selected criteria and therefore is the chosen wine to enter the German market. A description of Quinta dos Termos – Colheita Seleccionada 2008 can be found in Annex XII.

According to Keegan (1995), there are five product and promotion strategies that can be adopted when a company is internationalizing: i) Straight extension ii) Communication adaption iii) Product adaption iv) Dual adaption and v) Product invention.

Figure X- Five International Product and Promotion Strategies

		PRODUCT		
		Don't change product	Adapt product	Develop new product
PROMOTION	Don't change promotion	1. Straight extension	3. Product adaptation	5. Product invention
	Adapt promotion	2. Communication adaptation	4. Dual adaptation	

Source - (Keegan, 1989)

The best strategy for Quinta dos Termos to enter the German market is the Communication adaption strategy, meaning that the product does not change, however the promotion must be adapted to the specificities of the foreign market. The Fabehaft, a wine from Niepoort Vinhos S.A., is one of the most successful Portuguese wines in Germany, and part of its success is due to the Communication strategy that the firm adopted. Dirk Niepoort created a name and a storyboard label for the German market and incorporated the local culture and language. Between 2007 and 2012 he had to increase production from 160.000 bottles to 800.000 units in order to match demand. A similar strategy should be adopted by Quinta dos Termos. The label and the technical wine sheets of the exported wines should be written in German, with a language oriented to the German consumer, without forgetting to refer the unique and traditional characteristics of the wine.

3.1.2. Promotion

Regarding the promotion of Quinta dos Termos products, there are several promotional activities the company should perform. First, the company must take part in the most important wine fairs

in Germany, namely ProWein and Forum Vini. In these fairs, many economic agents of the wine sector are present, such as distributors, consumers, wine experts and journalists. These are the best events to establish important partnerships but also to understand better the market and to gain brand recognition in the market. Furthermore, the company should focus on the brand and quality recognition of its products, since Portuguese wines are still not seen as wines of high quality. Therefore, Quinta dos Termos must attend reputable international wine tasting competition in Germany, such as the Berliner Wine Trophy and the Mundus Vini. In these events, an international jury awards the best wines. Obtaining awards in these events, can become an important sales argument for Quinta dos Termos and help the German consumer regard the company's wines as quality products. Simultaneously, the company promotion strategy must go hand in hand with the strategy of ViniPortugal of promoting the brand Wines of Portugal in the world. The entity is responsible for promoting Portugal as a producer of wine of excellence through the valorization of the brand Wines of Portugal and has defined Germany as a priority and strategic market for the next years. In 2016, ViniPortugal promoted important events in Germany, namely the Wines of Portugal Campus 2016 in Hamburg and Wines of Portugal Weekend in Munich 2016. By taking part in these events, Quinta dos Termos benefits from the support given by ViniPortugal and assures a facilitating communication mechanism, by associating its products with the brand Wines of Portugal, to the German consumer.

Moreover, according to the Portuguese-German Chamber of Commerce and Industry (AHK) the number of German tourists in Portugal reached a record of 1,1 million tourists in 2015 and the number is predicted to have grown 20% in 2016 (AHK, 2016). This can be an opportunity to intensify the oenotourism activities in Quinta dos Termos for German tourists. In 2015, the Portuguese Association of Tourism and Travel Agencies (APAVT) held a congress with approximately one thousand German travel agents and tour operators. A partnership with this

agency could be created, which would include an oenological experience at Quinta dos Termos as part of touristic routes to Serra da Estrela, the major touristic attraction in Beira Interior.

Furthermore, once the product is established in some locations in Germany and is ready to expand its sales to other regions in the country, other marketing channels must be considered. A very important magazine in the sector is the *Meininger Sommelier* (Annex XIII), which brings together sommeliers, specialized wine shops and producers and importers of high-quality wines and other beverages. An advertisement in this magazine is highly recommendable, since the magazine is oriented to Quinta dos Termos chosen target market. Plus, it would allow the brand to gain national recognition and awareness. Also, and taking into consideration the analysis made to the German wine consumer profile, since 92% of the specialized wine shops' clients are interested in politics when they watch TV, an advertisement during the breaks of a political TV programme would be very successful. Obviously, this strategy could not be taken by Quinta dos Termos solely, but in association with ViniPortugal it might be feasible. The Business Center of AICEP in Berlin recommended that such promotional activities should be carried out only when the product has a significant brand awareness in the country.

3.1.3. Price

The pricing strategy of Quinta dos Termos is to target for the premium market, by having a competitive price to offer the consumers a good value for money. Therefore, it is of highest importance to be able to make an estimation of the end consumer price of our product. The table below shows the evolution of the price from the moment it leaves Quinta dos Termos till it reaches the shelf of a specialized wine store. The transportation and packaging costs and the importer margin were estimated by AICEP Portugal Global specifically to the German market, whereas the specialized wine shops margin was defined by the Research Center of the Geisenheim University.

Since Germany belongs to the European Union, the only tariff and tax the product must pay is the Value Added Tax (VAT), which in Germany amounts for 19% for this type of products.

Table 3 - Example of price calculation, in the German market, for a bottle of Colheita Seleccionada 2008 (0,75l)

Colheita Seleccionada 2008 (Red)	%	Euros
Ex-cellar Price		5,00
Transportation (Estimate)		0,49
Packaging (Estimate)		0,06
Importer Margin (30-50%)	35	1,94
Selling Price to Spec. Wine Shop		7,49
Wine Shop Margin (35-50%)	40	3,00
End consumer Price (without VAT)		10,49
VAT 19%	19	1,99
End consumer Price		12,48

Source 2 - Own computations based on data from AICEP Portugal Global (2014)

With an expected end consumer price of 12,48€, Colheita Seleccionada 2008 (Red) strategically positions itself slightly above the Portuguese competitors, however below wines with a current high brand awareness in the German market, such as the Niepoort - Fabelhaft Reserva D.O.C. (Annex XIV).

3.1.4. Place

Having decided for the foreign indirect export mode of operation, it is now crucial to choose the precise form of intermediary arrangements. Typically, there are two main forms of arrangements: agents and distributors. The agents work on behalf of the exporter in the foreign market and are facilitators of the exporter's sales of products. They normally work on a commission basis but they do not purchase the products. On the other hand, distributors buy and take title of the products, and as such assume a higher responsibility for the performance of the product in the foreign market and the financial risk is lower, since the cost of a customer's non-payment is borne by the exporter rather than the agent (Welch, et al., 2007). Therefore, the best option is to choose

a distributor, preferably a local distributor to each target market. For that purpose, the Business Center of AICEP in Berlin sent a list with the main distributors of Portuguese wine to Germany and categorized them according to the cities they operate (Annex VIII). According to Daniels, there are some common criteria for selecting a potential foreign distributor, such as: i) financial capability ii) connections with customers iii) fit with a company's product iv) other resources v) trustworthiness vi) compatibility with product image (Daniels, et al., 2004). Once the distributor is chosen, negotiations for an arrangement take place. In the distribution contract, several clauses should be included. Quinta dos Termos should keep the control over the marketing strategy for Germany, however it should allow the distribution company to have freedom to do sporadic promotions and to negotiate the shelf space. Also, as it is usual in the German distribution channel, the transportation from Portugal to Germany should be in charge of the foreign intermediary.

4. Financial Analysis

In order to verify if the project is financially viable, an incremental cash flows analysis for Quinta dos Termos entrance in the German market is performed. In the first year, in 2017, the company main focus should be finding distributors and partners in the the three regions defined as initial target markets for Quinta dos Termos, namely Baden-Württemberg, Hamburg and Munich and to start creating brand awareness in those locations. Therefore, the investment consists of participating in professional wine fairs events and on reputable wine contests in Germany. The two most important wine fairs in Germany are ProWein and Forum Vini and the most important wine contests are Mundus Vini and Berliner Wein Trophy. The participation in these events are considered in the initial investment. In 2018, and under the advisory of AICEP Business Center in Berlin, the number of bottles assumed to be sold to the German market reached 15.000 units. In the next years, the number of bottles sold is predicted to increase at a growth rate of 2,5%, a

percentage which is equivalent to the evolution of the wine consumption in Germany between 2011 and 2014, with the exception of the year 2021, when the annual growth rate considered was 20% because in that year Quinta dos Termos is predicted to expand its sales to other locations in Germany. The distribution price is 5€, which multiplied by the number of bottles sold totals the revenues. The merchandize price is 1,92€, granting Quinta dos Termos a margin per bottle of 3,08€. Furthermore, 15% of the difference between revenues and operational costs are applied in marketing for the following year – value recommended by the Marketing Manager of Sogrape Vinhos, S. A. . Moreover, since the investment is in reality a cost, taxes can also be abated in order to decrease its impacts on the company financials. The discount rate used is 5,08%. By 2022, the Net Present Value of the project is predicted to reach 159280,6€. The incremental cash flows analysis and sensitivity analysis are presented in Annexes XV and XVI.

5. Conclusion and Recommendations

This work project confirms that a medium sized Portuguese wine company can aim to successfully internationalize to a mature and competitive market, such as Germany. Given the characteristics of Quinta dos Termos, namely its terroir, certified production cycle, ecological approach, modern infrastructures, qualified human resources and expectable excessive capacity, internationalization is a desired and natural path. However, given the firm's dimension and relative inexperience in internationalization, it is required that the implementation plan is not heavily resource consuming and easily applied. It is possible that a relatively low risk internationalization strategy achieves significant financial returns and sustainable growth prospects. Although this project provides the company with a valuable framework for future internationalization projects, Quinta dos Termos must be aware that the success of future projects is dependent on the attention and adaption to the specificities of each market, as this work demonstrates.

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